

Transportation Debt Scenarios

**Select Committee on Strategic Transportation Planning
and Long Term Funding Solutions**

November 14th, 2016



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

4 Scenarios Requested

- \$1.5 Billion Issued in One Year
- \$1.5 Billion Issued Over Three Years
- \$2 Billion Issued Over Four Years
- \$2.5 Billion Issued Over Five Years

\$1.5 Billion Issued in One Year

Exceed 6% of Highway Revenue	Yes
Year with Highest Debt Service Ratio	2020
Highest Debt Service Ratio Percentage	6.61%
Future Capacity within 6% Limit	None over the next 5 years

\$1.5 Billion Issued Over Three Years

Exceed 6% of Highway Revenue	No
Year with Highest Debt Service Ratio	2020
Highest Debt Service Ratio Percentage	5.48%
Future Capacity within 6% Limit	Total of \$620.8M over the next 5 years

\$2 Billion Issued Over Four Years

Exceed 6% of Highway Revenue	No
Year with Highest Debt Service Ratio	2023
Highest Debt Service Ratio Percentage	5.75%
Future Capacity within 6% Limit	Total of \$120.8M over the next 5 years

\$2.5 Billion Issued Over Five Years

Exceed 6% of Highway Revenue	Yes
Year with Highest Debt Service Ratio	2023
Highest Debt Service Ratio Percentage	6.80%
Future Capacity within 6% Limit	None over the next 5 years

Assumptions/Sensitivity

- Assumes 25 year term and 6.15% interest rate
- 1% increase in revenue will increase the availability by \$25 million
- \$100 million increase in revenue will increase the availability by \$76 million
- 1% decrease in the interest rate will create \$115 million more in debt capacity

Impact on Debt Rating

- “The rating agencies view all debt supported by state-wide, generally applied taxes and/or user fees to be “Tax-Supported Debt””
- Connect NC Bonds will increase overall NC debt by \$2 billion
- Similar to the overall bond market, it is impossible to predict how rating agencies will react to increased debt service levels

Comparison to Other States

- Georgia and Texas (Triple-AAA) States have debt service ratios for transportation of 17.7% and 13.8%
- Virginia and South Carolina have transportation debt service ratios of 3% and 6%
- North Carolina has a ratio of 3.8%

Next Steps

- Should debt be issued?
- What type of debt should be issued? General Obligation, Special Indebtedness
- What type of projects should qualify?
- Are the projects “shovel ready”?
- Should the legislature exceed the DAAC 6% recommendation? Should the 6% be revisited?

Questions